

Annual

Report

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INTERSTATE DEPARTMENT STORES, INC.

INTERSTATE DEPARTMENT STORES, INC.

DIRECTORS

| | |
|---------------------|-------------------|
| SAMUEL J. ABEND | HAROLD F. LINDER |
| ROBERT S. ADLER | BENJAMIN W. MAYER |
| SOL W. CANTOR | ALBERT PARKER |
| CHARLES E. FEDERMAN | HERBERT J. REEVES |
| PAOLINO GERLI | MURRAY D. SAFANIE |
| R. C. KRAMER | HAROLD J. SZOLD |

OFFICERS

| | |
|--|--------------------|
| <i>Chairman of the Board</i> | R. C. KRAMER |
| <i>President</i> | SOL W. CANTOR |
| <i>Vice President</i> | SAMUEL J. ABEND |
| <i>Vice President</i> | BARRY GOLDEN |
| <i>Treasurer</i> | GEORGE H. STUNTZ |
| <i>Secretary</i> | ALBERT PARKER |
| <i>Assistant Treasurer and Assistant Secretary</i> | EDWARD C. SCHENKEL |

| | | |
|---|---|----------|
| <i>Transfer Agent</i> | BANK OF THE MANHATTAN COMPANY.... | New York |
| <i>Registrar</i> | THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK..... | New York |
| <i>General Counsel</i> | PARKER, CHAPIN AND FLATTAU..... | New York |
| <i>Public Accountants</i> | S. D. LEIDESDORF & Co. | New York |
| <i>Executive and General Offices</i> | 111 EIGHTH AVENUE..... | New York |

LOCATION AND NAME OF STORES

CONNECTICUT

New Haven Stanley's

ILLINOIS

Aurora Aurora Dry Goods Co.
 Belleville Carroll House
 Decatur Decatur Dry Goods Co.
 Peoria Peoria Dry Goods Co.
 Rockford Rockford Dry Goods Co.
 Springfield Springfield Dry Goods Co.
 Waukegan Waukegan Dry Goods Co.

INDIANA

Anderson Hill's
 Evansville The Evansville Store
 Evansville Economy Department Store
 Fort Wayne Grand Leader
 Marion Hill's
 Muncie Stillman's
 South Bend Grand Leader
 Vincennes Hill's

IOWA

Davenport Hill's
 Des Moines Hill's

KENTUCKY

Louisville Jefferson Dry Goods Co.
 Paducah Paducah Dry Goods Co.

MICHIGAN

Battle Creek Grand Leader
 Flint The Fair
 Jackson Stillman's
 Lansing Lansing Dry Goods Co.
 Port Huron Carroll House

NEW YORK

Troy Stanley's
 Utica Boston Store

OHIO

Akron Federman's
 Springfield Boston Store

PENNSYLVANIA

Reading Read's
 Williamsport Carroll House
 York Stillman's

SOUTH CAROLINA

Anderson Baile's

TENNESSEE

Knoxville Knox Dry Goods Co.

VIRGINIA

Staunton Carroll House

WEST VIRGINIA

Huntington Huntington Dry Goods Co.

WISCONSIN

Fond du Lac Fond du Lac Dry Goods Co.
 Green Bay Hill's
 Madison Hill's
 Milwaukee Hill's
 Racine Racine Dry Goods Co.
 Sheboygan Hill's Department Store
 West Bend Carroll House

THE STORY IN BRIEF

| | Years Ended January 31 | |
|--------------------------------------|------------------------|--------------|
| | <u>1954</u> | <u>1953</u> |
| Sales | \$63,865,792 | \$64,758,841 |
| Net Income Before Taxes | 1,784,710 | 2,198,988 |
| Net Income After Taxes | 1,032,710 | 1,188,988 |
| Earnings Per Share | 3.36 | 3.87 |
| Dividends Paid Per Share | 2.50 | 2.50 |
| Long Term Debt | 5,015,206 | 6,163,365 |
| Working Capital | 11,662,804 | 12,884,487 |
| Stockholders' Equity Per Share | 43.45 | 42.59 |
| Current Ratio | 3.4 to 1 | 3.3 to 1 |

April 23, 1954

To the Stockholders of

INTERSTATE DEPARTMENT STORES, INC.

"The Story in Brief" on the preceding page highlights your Company's operations for the year 1953.

EARNINGS: Earnings in 1953 were \$1,032,710 or \$3.36 per share compared with \$1,188,988 or \$3.87 per share in 1952. Earnings as compared with 1952 were adversely affected in the amount of \$75,000 by the use of the LIFO method of computing inventories.

SALES: Sales were \$63,865,792 which was 1.4% lower than last year. Approximately \$700,000 of the sales decline was due to the destruction by fire in January 1953 of our main store in Paducah, Kentucky. Operations were maintained in this community in smaller temporary quarters pending the erection of a new building now in the process of construction, which will be completed in the Fall of this year.

In addition, the sale of "hard goods" was eliminated in some stores and restricted in others where the profit possibilities were not considered promising.

INVENTORIES: Inventories and commitments at January 31, 1954 were 16% lower than last year. Textiles, which contribute a great part of our inventories, continue to be in free supply. Inventories consequently are reduced to a better relationship with sales and it is expected that they will continue to be below last year's ratio.

BUILDING, EQUIPMENT AND FIXTURES: During the past year, approximately \$900,000 was spent for remodeling and construction work. This was in addition to normal maintenance. The major improvements included completely air conditioning the unit in Huntington, West Virginia, a modernized front and Main Floor relay in Muncie, Indiana, and the complete remodeling of the Waukegan, Illinois store, with very satisfactory results sales-wise.

The modernization program will continue in this coming year, with further experiment with self-service fixtures in certain departments, as a result of satisfactory results of initial tests.

Under present plans 1954 capital expenditures will not be in excess of the annual charge for depreciation and amortization.

WORKING CAPITAL: Current assets, net of current liabilities and long term debt, were approximately the same as at the prior year end. Collections on installment accounts continued to be satisfactory and ample provision has been made for possible losses. The ratio of current assets to current liabilities was increased slightly to 3.4 to 1 from 3.3 to 1 in 1952.

DIVIDENDS: Dividends of \$2.50 per share were paid on the Common Stock during the year. The regular quarterly dividend of 62½¢ per share for the first quarter of the current fiscal year was paid on April 15, 1954.

STOCKHOLDERS' EQUITY has again been improved from \$42.59 per share last year to \$43.45 at January 31, 1954.

OUTLOOK: Many students of business predict a decline in business activity in 1954. If such a decline occurs, it will affect retail sales. Sales of your Company for February and March were below last year.

We at Interstate, however, are not pessimistic about the outlook for your Company in 1954. April sales should show an increase over last year that may offset the decline of the first two months. Significant work was done in expense reduction and substantial improvement was made in operating practices in 1953. These should make themselves felt in 1954. Retail sales of "soft lines," which constitute 90% of our business, should hold up well in comparison with total retail sales. We expect a full share of the retail business of the communities we serve in 1954 at a profit.

Your Directors express their appreciation to the entire organization for the assistance and cooperation shown in a year that has presented many difficulties and for the continuous efforts made to improve further the Company's operation.

For the Board of Directors,

R. C. KRAMER, *Chairman*

SOL W. CANTOR, *President*

INTERSTATE DEPARTMENT and Subsidiaries

CONSOLIDATED BALANCE SHEET

ASSETS

1954

1953

CURRENT ASSETS:

| | | |
|-------------------------------------|-------------|-------------|
| Cash on hand and in banks | \$ 706,683 | \$ 775,699 |
| United States Treasury bond—at cost | | 100,031 |
| Accounts receivable: | | |
| Customers | \$5,619,238 | \$5,696,165 |
| Less: Reserves | 537,508 | 510,735 |
| Other | 288,090 | 844,770 |
| Merchandise inventories (Note A) | 10,125,704 | 11,268,917 |
| Prepaid expenses (Note B) | 306,937 | 341,519 |
| Total Current Assets | 16,509,144 | 18,516,366 |

| | | |
|--------------------|--------|--------|
| OTHER ASSETS | 13,306 | 19,062 |
|--------------------|--------|--------|

FIXED ASSETS—at cost:

| | | |
|--|--------------------|--------------------|
| Land and buildings (subject to mortgages—per contra) | \$ 431,852 | \$ 330,729 |
| Less: Reserves for depreciation | 62,476 | 51,067 |
| | <u>\$ 369,376</u> | <u>\$ 279,662</u> |
| Furniture and equipment | \$4,797,185 | \$4,479,314 |
| Less: Reserves for depreciation | 1,743,125 | 1,413,616 |
| | <u>\$3,054,060</u> | <u>\$3,065,698</u> |
| Leaseholds and leasehold improvements | \$3,860,572 | \$3,528,981 |
| Less: Reserves for amortization | 817,779 | 927,876 |
| | <u>\$3,042,793</u> | <u>\$2,601,105</u> |
| Construction in progress | \$ 3,456 | \$ 280,423 |
| | <u>6,469,685</u> | <u>6,226,888</u> |

| | | |
|---------------------------------|---------------------|---------------------|
| DEFERRED CHARGES (Note B) | 200,857 | 93,752 |
| | <u>\$23,192,992</u> | <u>\$24,856,068</u> |

The Notes to Financial Statements are an integral part of

MENT STORES, INC.

y Companies

AS AT JANUARY 31, 1954-1953

LIABILITIES

| | 1954 | 1953 |
|---|---------------------|---------------------|
| CURRENT LIABILITIES: | | |
| Notes payable, current installments (Note C) | \$ 140,000 | \$ 140,000 |
| Accounts payable—trade | 2,109,818 | 2,698,546 |
| Accrued expenses and sundry other liabilities | 1,062,427 | 1,107,894 |
| Taxes withheld and accrued, other than Federal taxes on income | 518,377 | 435,019 |
| Accrued Federal taxes on income.... | 1,015,718 | 1,250,420 |
| Total Current Liabilities | 4,846,340 | 5,631,879 |
| LONG-TERM DEBT: | | |
| Notes payable (Note C) | \$4,670,000 | \$5,810,000 |
| Mortgages payable | 205,206 | 4,875,206 |
| Total Liabilities | 9,721,546 | 11,655,244 |
| DEFERRED INCOME — CARRYING CHARGES | 111,014 | 104,322 |
| STOCKHOLDERS' EQUITY (Notes C and D) | 13,360,432 | 13,096,502 |
| LEASE COMMITMENTS (Note E) | | |
| | <u>\$23,192,992</u> | <u>\$24,856,068</u> |

this statement and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.
and Subsidiary Companies

CONSOLIDATED STATEMENT OF EARNINGS

For the Year Ended January 31, 1954-1953

| | <u>1954</u> | <u>1953</u> |
|--|---------------------|---------------------|
| NET SALES: | | |
| Owned departments | \$56,317,208 | \$56,900,261 |
| Leased departments | 7,548,584 | 7,858,580 |
| | <u>63,865,792</u> | <u>64,758,841</u> |
| COST OF SALES, operating and administrative expenses, including depreciation and amortization of \$754,097 for 1954 and \$694,796 for 1953 | 61,986,950 | 62,522,034 |
| | <u>1,878,842</u> | <u>2,236,807</u> |
| OTHER INCOME—net | 162,029 | 149,212 |
| | <u>2,040,871</u> | <u>2,386,019</u> |
| INTEREST EXPENSE | 256,161 | 187,031 |
| NET EARNINGS BEFORE FEDERAL TAXES ON INCOME | 1,784,710 | 2,198,988 |
| PROVISION FOR FEDERAL TAXES ON INCOME | 752,000 | 1,010,000 |
| NET EARNINGS | <u>\$ 1,032,710</u> | <u>\$ 1,188,988</u> |

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the Year Ended January 31, 1954-1953

| | <u>1954</u> | <u>1953</u> |
|--|---------------------|---------------------|
| EARNINGS PREVIOUSLY RETAINED FOR USE IN THE BUSINESS (EARNED SURPLUS) | \$ 9,639,063 | \$ 9,218,836 |
| NET EARNINGS | 1,032,710 | 1,188,988 |
| | <u>10,671,773</u> | <u>10,407,824</u> |
| CASH DIVIDENDS PAID | 768,780 | 768,761 |
| | <u>9,902,993</u> | <u>9,639,063</u> |
| EARNINGS RETAINED FOR USE IN THE BUSINESS | 1,918,058 | 1,918,058 |
| CAPITAL SURPLUS (no change during the year).... | | |
| COMMON STOCK (stated at par value of \$1 per share since May 27, 1953, plus \$1,271,306 retained as Capital by resolution of the Board of Directors—no par value prior thereto)—(Note D) | | |
| Authorized 500,000 shares | | |
| Issued 308,946 shares | 1,580,252 | 1,580,252 |
| | <u>13,401,303</u> | <u>13,137,373</u> |
| Less—1,446 shares of Common Stock held in treasury—at cost | 40,871 | 40,871 |
| STOCKHOLDERS' EQUITY (Notes C and D) | <u>\$13,360,432</u> | <u>\$13,096,502</u> |

The Notes to Financial Statements are an integral part of these statements and should be read in conjunction herewith.

INTERSTATE DEPARTMENT STORES, INC.

and Subsidiary Companies

NOTES TO FINANCIAL STATEMENTS

As at January 31, 1954

Reference is made to the Annual Report for the year ended January 31, 1953 for notes and comments pertaining to financial statements as at that date.

NOTE A—Merchandise inventories include merchandise in transit amounting to \$904,789 as at January 31, 1954 based on specific invoice cost.

Merchandise inventories at stores are based on the retail method at (a) cost as determined on the "last-in, first-out" basis, or (b) the lower of cost or market after provision for markdowns based on age of merchandise.

Merchandise inventories at warehouses are priced at the lower of cost or replacement market.

NOTE B—In balance sheets previously issued by the Company, prepaid expenses were shown among "Deferred Charges." The Company has adopted the policy of including the current portion of these items among "Current Assets," and accordingly these prepayments have been reclassified in the accompanying January 31, 1953 consolidated balance sheet for comparative purposes.

NOTE C—Notes payable as at January 31, 1954 are due to:

| | |
|-------------------------|--------------------|
| Bank | \$1,250,000 |
| Insurance company | 3,560,000 |
| | <u>\$4,810,000</u> |

The bank loan, evidenced by 90 day notes, was made pursuant to the terms of a credit agreement as amended October 22, 1953, under which the Company may borrow, repay and reborrow up to \$3,500,000 for a four year period from November 1, 1950. Interest is to be at a rate per annum equal to the prime commercial discount rate of the bank in effect on the date of such note. After the expiration of the four year period, at the option of the Company, it may borrow on November 2, 1954 up to \$3,500,000, repayable in six annual installments (of which the first five shall each be equal to one-seventh of the principal amount borrowed) beginning November 1, 1955 at an annual interest rate of not less than 2½ % nor more than 3¼ %, determined as prescribed in the credit agreement. On the date the Company borrows under the option (if exercised), the 90 day notes then outstanding are due and payable.

The notes payable to an insurance company in the amounts of \$2,625,000 and \$935,000 require annual amortization on payments as follows: on the first note, \$75,000 through 1955, \$200,000 from 1956 through 1958, \$325,000 in 1959, \$350,000 from 1960 through 1962 and \$500,000 in 1963; on the second note, \$65,000 from 1954 through 1966, inclusive, and \$90,000 in 1967.

The loan agreements with the insurance company and the bank credit agreement contain, among other things, restrictions on the right of the Company to declare dividends (other than stock dividends) and reduce its capital stock, including, with

INTERSTATE DEPARTMENT STORES, INC.
and Subsidiary Companies

NOTES TO FINANCIAL STATEMENTS — (Continued)

respect to the insurance company loan agreements, a requirement that, after giving effect to the payment of such dividends, there are prescribed ratios of consolidated net current assets and of consolidated net tangible assets to consolidated funded debt. As at January 31, 1954, approximately \$1,150,000 of the consolidated surplus of \$11,821,051 is not subject to the dividend restrictions contained in the aforementioned agreements.

NOTE D—A stock option plan for officers and key employees of the Company and its subsidiaries authorized the granting of options to purchase not in excess of 25,000 shares of the Common Stock of the Company. Options for the purchase of 8,000 shares at \$31.5875 per share, granted in a prior year, and 2,500 shares at \$27.43125 per share, granted during the current year, are outstanding at January 31, 1954, none of which have been exercised. An option for the purchase of 4,000 shares expired during the year.

NOTE E—At January 31, 1954, the minimum annual rentals upon real property leased to the Company and/or to its subsidiaries under 56 leases expiring after January 31, 1957 amount to approximately \$1,050,000, plus, in certain instances, real estate taxes, insurance, etc.

GENERAL—The accompanying financial statements are subject to final determination of Federal, state and local taxes.

S. D. LEIDESDORF & CO.

Certified Public Accountants

ACCOUNTANTS' REPORT

To the Board of Directors

INTERSTATE DEPARTMENT STORES, INC.

New York, N. Y.

We have examined the consolidated balance sheet of Interstate Department Stores, Inc. and subsidiary companies as at January 31, 1954 and the related consolidated statements of earnings and stockholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings and stockholders' equity, together with the notes to financial statements, present fairly the consolidated financial position of Interstate Department Stores, Inc. and subsidiary companies at January 31, 1954, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & Co.

New York, N. Y.

April 7, 1954

This report is solely for statistical information for stockholders, and is not a representation, prospectus or circular in respect of any stock of any corporation, and is not transmitted in connection with any sale or offer to sell or buy any stock or security now or hereafter to be issued, or with any preliminary negotiation for such sale.

